

**TOWN OF CASTLE VALLEY**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**TOWN OF CASTLE VALLEY  
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**SMUIN, RICH & MARSING**

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.  
R. KIRT RICH, C.P.A.  
GREG MARSING, C.P.A.  
DOUGLAS RASMUSSEN, C.P.A.

**MEMBERS**

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

**ACCOUNTANTS' REVIEW REPORT**

To the Mayor and Town Council  
Town of Castle Valley  
H.C. 64, Box 2705  
Castle Valley, Utah 84532

We have reviewed the accompanying financial statements of governmental activities, each major fund, and the remaining fund information of the Town of Castle Valley, as of June 30, 2005, which collectively comprise the Town's financial statements as listed in the table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the Town of Castle Valley.

A review consists principally of inquiries of Town personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the generally accepted accounting principles.

The Management, Discussion and Analysis as listed in the financial section of the table of contents is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

SMUIN, RICH & MARSING



Price, Utah

December 30, 2005

**TOWN OF CASTLE VALLEY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005**

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Our discussion and analysis of the Town of Castle Valley's (Town) financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2005.

**FINANCIAL HIGHLIGHTS**

- ❖ The Town's net assets increased \$6,447 as a result of this year's operations. Net assets of our governmental activities (the only activity that the Town has) increased by 1.4 percent.
- ❖ Total expenses of \$131,509 were \$103,134 more than the program revenues received of \$28,375 for governmental activities.
- ❖ Tax revenue (property taxes, sales tax and liquor funds) for the year ended June 30, 2005 was \$104,666. This was an increase of \$19,209 from the year ended June 30, 2004.
- ❖ The General and Capital Project Funds reported a decrease of \$122,795 and \$47,242, respectfully, after transfers and other contributions.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The financial reports: Statement of Net Assets and the Statement of Activities (on pages 9 and 10) provide information about the activities of the Town as a whole and present a long-term view of the Town's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most financially significant funds.

**REPORTING THE TOWN AS A WHOLE**

Our analysis of the Town of Castle Valley as a whole begins on page 9. The Statement of Net Assets and Statement of Activities report information about the Town as a whole and about its activities in a way that helps determine if the Town is better or worse off as a result of the year's activities. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's *net assets* and changes in them. Net assets equal the difference between assets and liabilities. This is one way to measure the Town's financial position. Increases or decreases in the Town's net assets are one indicator of whether the financial position of the Town is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, the Town shows all of the activities in one fund:

Governmental activities—All of the Town's basic services are reported here, including the general and administration cost, contributions to other agencies and interest on long-term debt. Operating and capital grants and Tax revenues finance most of these activities.

### **Reporting the Town's Most Significant Funds**

Our analysis of the Town's major funds begins on page 11. The fund financial statements begin on page 11 and provide detailed information about the most significant funds. Some funds are required to be established by State law and by bond covenants. The Town established other funds to help it control and manage money for particular purposes (capital projects) or to show that it is meeting legal responsibilities for using tax revenue, grants, and other money. The Town is operated with governmental funds, which use a different accounting approach.

Governmental *funds*—All of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship or differences between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation on the page following the fund financial statements.

### **The Town as Trustee**

The Town does not hold any funds or property in a trustee capacity. Consequently, no trustee information is required to be presented.

### **Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to private-sector business. The Town's Statement of Net Assets, which increased during the current calendar year, presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities presents information showing how the Town's net assets changed during the most recent fiscal year. The government-wide financial statements include the Town's two funds, the General Fund and the Capital Projects Funds. There is no component unit information that is required to be reported in this report. The analysis below, focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Town's governmental activities.

**Government-wide financial statements (Continued)**

**Table 1**  
**Net Assets**

	<b>Governmental Activities</b>	<b>Governmental Activities</b>
	<b>2004</b>	<b>2005</b>
Current and other assets	\$ 339,128	\$ 170,543
Capital assets	<u>259,118</u>	<u>439,352</u>
Total assets	<u>\$ 598,246</u>	<u>\$ 609,895</u>
Current liabilities	\$ 1,802	\$ 11,004
Long-term debt outstanding	<u>150,000</u>	<u>146,000</u>
Total liabilities	\$ 151,802	\$ 157,004
Net assets:		
Invested in capital assets, net of debt	\$ 109,118	\$ 289,352
Restricted - Capital projects	112,394	47,857
- Capital improvements/reserves	93,295	18,549
- Class "C" roads	14,066	14,069
Unrestricted	<u>117,571</u>	<u>83,064</u>
Total net assets	<u>\$ 446,444</u>	<u>\$ 452,891</u>

Net Assets of the Town's governmental activities increased by 1.4 percent (\$452,891) compared to (\$446,444). *Unrestricted* net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—is \$83,064 at the end of the year. These net assets are used to finance the continuing operations of providing services to the Town.

**Table 2**  
**Changes in Net Assets**

	<u>Governmental Activities</u> <u>2004</u>	<u>Governmental Activities</u> <u>2005</u>
<b>Revenues</b>		
Program Revenues:		
Charges for services	\$ 729	\$ 1,310
Operating grants and contributions	22,841	27,065
Capital grants and contributions	53,654	
General Revenues		
Taxes	85,457	104,666
Investment earnings	<u>4,949</u>	<u>4,915</u>
Total revenues	<u>\$ 167,630</u>	<u>\$ 137,956</u>
<b>Program Expenses</b>		
General government	\$ 84,186	\$ 86,519
Highways and public improvements	<u>40,751</u>	<u>44,990</u>
Total expenses	<u>\$ 124,937</u>	<u>\$ 131,509</u>
Excess (deficiency) before sale of assets	\$ 42,693	\$ 6,447
Change in net assets	<u>\$ 42,693</u>	<u>\$ 6,447</u>
Net Assets - beginning	\$ 403,751	\$ 446,444
Net Assets - ending	<u>446,444</u>	<u>452,891</u>
	<u>\$ 42,693</u>	<u>\$ 6,447</u>

The Town's operational goals for future years is to continue to strive to use the allotted funds in the best interest of the Town and those who are served by the Town's operations. As revenues increase, the funds will be used to purchase necessary supplies and equipment that are appropriate and deemed beneficial. The Town has finished a new Town hall that has become an integrated additional cost.

### **Governmental Activities**

Revenues for the Town's governmental type activities decreased 17.7 percent, while total expenses increased 5.3 percent. The largest sources of funds for the current year were Property taxes and Class C Road funds. Net assets for governmental activities increased \$6,447 in 2005.

The cost of all governmental activities this year was \$131,509. As shown in the Statement of Activities on page 10, the amount that Tax revenue ultimately paid, for these activities, was substantial, while some of the cost was paid by those who directly benefited from the programs, or by other governments and organizations that subsidized certain programs with grants and contributions. Overall, the Town's governmental program revenues, including intergovernmental aid and fees for services, decreased in 2005 from \$77,224 to \$28,375, principally because in the current year the Town did not receive any capital grants and contributions.

Costs of the Town are all centered within two programs—general government and highways and public improvements. The net cost of expenditures (over) or under specific program revenues shows the financial burden that utilizes the taxes and other miscellaneous revenues.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Town revised their budget. The original budget was adopted on June 16, 2004 and a final adjustment was made on June 27, 2005. The budget was amended to \$135,447 to account for an increase in anticipated revenues and expenses. The differences in the original budget and final amended budget are summarized as follows: 1) increase in Taxes revenue of \$16,825; increase in Intergovernmental revenues of \$2,050; increase in Fees and permits of \$282; increase in Donations of \$1,300; increase in Miscellaneous revenue of \$60; and increase in Interest revenue of \$1,550; 2) increase in expenditures for General government of \$9,567; increase in Highways and public improvements of \$32,500; and decrease in Capital outlay of \$47,500.

The actual charges for expenditures were \$11,973 below the final budget amounts. The most significant favorable variance of \$8,963 occurred in the expenditures for Highways and public improvements.

Resources for revenues were \$1,473 below the final budgeted amount. The most significant unfavorable variance of \$1,571 occurred in Taxes. (Property taxes and sales tax).

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of June 30, 2005, the Town had \$513,737 invested in a broad range of capital assets, including well and pressure tank, buildings, vehicles, machinery and equipment, office equipment, and infrastructure. (see Table 4 below). This amount represents a net increase (including additions and deletions) of \$281,344, or a 121.1 percent increase over the previous year.



**Table 4**  
**Capital Assets at Year-End**  
**(Net of Depreciation)**  
**June 30, 2005**

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2004</u>	<u>2005</u>
Well and pressure tank	\$ 9,265	\$ 9,001
Buildings	1,132	250,114
Vehicles, equipment and machinery	23,184	19,519
Office equipment		4,155
Roads and infrastructure	<u>141,367</u>	<u>156,563</u>
Total assets activities	<u>\$ 174,948</u>	<u>\$ 439,352</u>

This year's major additions include:

Community center constructed	\$219,305
Paid with current year revenue and CIB loan/grant	
Pavilion constructed	39,133
Paid with current year revenue and Grand County grant	
Office equipment purchased	5,193
Paid with current year revenue	
Road improvements	17,712
Paid with current year revenue	

The Town's calendar year 2005 capital budget calls for spending on capital projects, principally for finishing the Town hall (which has been completed), purchase of needed equipment and improvements to roads. More detailed information about the Town's capital assets is presented in Note 4 to the financial statements.

#### **Long-term debt**

As of June 30, 2005, the Town had \$150,000 in a Community Impact Board loan outstanding. The debt represents a loan solely for the construction of the Town hall. The following table (table 5) shows outstanding debt for the current year.

**Table 5**  
**Outstanding Debt as of**  
**June 30, 2005**

	<b>Governmental Activities</b>	<b>Governmental Activities</b>
	<u>2004</u>	<u>2005</u>
CIB Loan payable	\$ 150,000	\$ 150,000
Total debt	<u>\$ 150,000</u>	<u>\$ 150,000</u>

The debt resulted from requesting funds from the Community Impact Board, which have been used in the construction of the new Town hall. This project has been completed. More detailed information about the Town's long-term liabilities is presented in Note 5 to the financial statements.

#### **ECONOMIC FORECAST AND FUTURE BUDGET**

The Town of Castle Valley has not made changes in budgeted tax revenues for the next fiscal year. The property tax rates are set to produce the same budgeted revenues as were received in the fiscal year ending June 30, 2005. The Town's budget for fiscal year 2006 is relatively similar in most expense categories to the most recent year's actual expenses. The only material exceptions are construction and purchasing costs that will be incurred in the next fiscal year to make certain additions and improvements to the Town Hall, financed by Town funds, as well as to the community recreation pavilion, financed by a Grand County, Utah grant.

The Town is participating in the water rights adjudication currently proceeding in the Seventh District Court for Grand County in Case No. 810704477 and is actively working with the Town attorney, The Division of Water Rights and other interested parties to achieve a beneficial and equitable outcome.

#### **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our community with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town's Treasurer at H.C. 64, Box 2705 Castle Valley, Utah 84532.

**TOWN OF CASTLE VALLEY**  
**STATEMENT OF NET ASSETS**  
JUNE 30, 2005

	GOVERNMENTAL ACTIVITIES
<u>ASSETS</u>	
Current assets:	
Cash and investments	\$ 90,068
Restricted:	
Cash and investments	80,475
Total current assets	\$ 170,543
Noncurrent assets:	
Capital assets, net of accumulated depreciation	
Depreciable buildings, property, and equipment, net	\$ 439,352
Total noncurrent assets	\$ 439,352
Total assets	\$ 609,895
<u>LIABILITIES AND NET ASSETS</u>	
LIABILITIES:	
Current liabilities:	
Accrued interest payable	\$ 3,750
Accrued revenue	2,000
Current portion of long-term debt	4,000
Retainage payable	1,254
Total current liabilities	\$ 11,004
Noncurrent liabilities:	
Noncurrent portion of long-term obligations	\$ 146,000
Total noncurrent liabilities	\$ 146,000
Total liabilities	\$ 157,004
NET ASSETS:	
Invested in capital assets, net of related debt	\$ 289,352
Restricted for:	
Capital projects	47,857
Class "C" road	14,069
Capital improvements/reserves	18,549
Unrestricted	83,064
Total net assets	\$ 452,891
Total liabilities and net assets	\$ 609,895

"See Accompanying Notes and Accountants' Review Report."

**TOWN OF CASTLE VALLEY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005**

	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions	
<u>FUNCTION/PROGRAMS</u>					<u>Governmental Activities</u>
Governmental activities:					
General government	\$ 86,519	\$ 1,310	\$ 7,015		\$ (78,194)
Highways and public improvements	44,990		20,050		(24,940)
Total governmental activities	\$ 131,509	\$ 1,310	\$ 27,065	\$ ...	\$ (103,134)
General Revenues:					
Taxes					\$ 104,666
Interest					4,915
Total general revenues, special items, and transfers					\$ 109,581
Change in net assets					\$ 6,447
Net assets - beginning					446,444
Net assets - ending					\$ 452,891

"See Accompanying Notes and Accountants' Review Report."

**TOWN OF CASTLE VALLEY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 90,068		\$ 90,068
Cash and investments - restricted			
Class "C" road	14,069		14,069
Capital improvements/reserves		\$ 17,295	17,295
Capital projects		47,857	47,857
Other	1,254		1,254
Total assets	<u>\$ 105,391</u>	<u>\$ 65,152</u>	<u>\$ 170,543</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>LIABILITIES:</b>			
Accrued liabilities	\$ 2,000		\$ 2,000
Retainage payable	1,254		1,254
Total liabilities	<u>\$ 3,254</u>	<u>\$ ...</u>	<u>\$ 3,254</u>
<b>FUND BALANCES:</b>			
Restricted for:			
Class "C" roads	\$ 14,069		\$ 14,069
Capital improvements/reserves	1,254	\$ 17,295	18,549
Capital projects		47,857	47,857
Unreserved	86,814		86,814
Total fund balances	<u>\$ 102,137</u>	<u>\$ 65,152</u>	<u>\$ 167,289</u>
Total liabilities and fund balances	<u>\$ 105,391</u>	<u>\$ 65,152</u>	<u>\$ 170,543</u>

"See Accompanying Notes and Accountants' Review Report

**TOWN OF CASTLE VALLEY**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2005**

Total fund balances - governmental fund types:	\$	167,289
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. Amounts shown are net of depreciation.

Community well/pressure tank	\$ 9,001		
Buildings	250,114		
Vehicles, equipment, and machinery	19,519		
Roads and infrastructure	156,563		
Office equipment	4,155		
			439,352

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore are not reported in the funds.

Accrued interest payable	\$ (3,750)		
Current portion of note payable	(4,000)		
Note payable - noncurrent portion	(146,000)		
			(153,750)

Net assets of governmental activities	\$	452,891
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"See Accompanying Notes and Accountants Review Report."

**TOWN OF CASTLE VALLEY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

			TOTAL GOVERNMENTAL FUND
	GENERAL	CAPITAL PROJECTS	JUNE 30, 2005
<b>REVENUES:</b>			
Taxes	\$ 104,666		\$ 104,666
Intergovernmental	20,300		20,300
Fees and permits	845		845
Charges for services	405		405
Donations	3,300	\$ 3,465	6,765
Miscellaneous	60		60
Interest revenue	4,398	67	4,465
<b>Total revenues</b>	<b>\$ 133,974</b>	<b>\$ 3,532</b>	<b>\$ 137,506</b>
<b>EXPENDITURES:</b>			
Current -			
General government	\$ 55,537		\$ 55,537
Highways and public improvements	67,937		67,937
Capital outlay		\$ 184,069	184,069
<b>Total expenditures</b>	<b>\$ 123,474</b>	<b>\$ 184,069</b>	<b>\$ 307,543</b>
<b>Excess of revenue over (under) expenditures</b>	<b>\$ 10,500</b>	<b>\$ (180,537)</b>	<b>\$ (170,037)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfer in		\$ 133,295	\$ 133,295
Transfer out	\$ (133,295)		(133,295)
<b>Total other financing sources (uses)</b>	<b>\$ (133,295)</b>	<b>\$ 133,295</b>	<b>\$</b>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<b>\$ (122,795)</b>	<b>\$ (47,242)</b>	<b>\$ (170,037)</b>
<b>FUND BALANCE, July 1, 2004</b>	<b>224,932</b>	<b>112,394</b>	<b>\$ 337,326</b>
<b>FUND BALANCE, June 30, 2005</b>	<b>\$ 102,137</b>	<b>\$ 65,152</b>	<b>\$ 167,289</b>

"See Accompanying Notes and Accountants' Review Report."

**TOWN OF CASTLE VALLEY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

Net changes in fund balances - total governmental funds	\$	(170,037)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$197,173) was exceeded by depreciation (\$16,939) in the current period.

180,234

The issuance of long-term debt (e.g., bonds and notes payable) provide current financial resources to governmental funds, while the repayment of the principal and interest of long-term debt consumes the current financial resources of governmental funds.

The net effect of these differences in the treatment of notes payable are as follows:

(3,750)

Change in net assets of governmental activities	\$	<u>6,447</u>
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"See Accompanying Notes and Accountants' Review Report."



**TOWN OF CASTLE VALLEY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<u>BUDGET AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>WITH</u>
				<u>FINAL BUDGET</u>
				<u>FAVORABLE</u>
				<u>(UNFAVORABLE)</u>
<b>REVENUES:</b>				
Taxes	\$ 89,412	\$ 106,237	\$ 104,666	\$ (1,571)
Intergovernmental revenues	18,000	20,050	20,300	250
Fees and permits	968	1,250	1,250	
Donations	2,000	3,300	3,300	
Miscellaneous		60	60	
Interest revenue	3,000	4,550	4,398	(152)
<b>Total revenues</b>	<b>\$ 113,380</b>	<b>\$ 135,447</b>	<b>\$ 133,974</b>	<b>\$ (1,473)</b>
<b>EXPENDITURES:</b>				
General government	\$ 48,980	\$ 58,547	\$ 55,537	\$ 3,010
Highways and public improvements	44,400	76,900	67,937	8,963
Capital outlay	47,500			
<b>Total expenditures</b>	<b>\$ 140,880</b>	<b>\$ 135,447</b>	<b>\$ 123,474</b>	<b>\$ 11,973</b>
<b>Excess of revenues over (under) expenditures</b>	<b>\$ (27,500)</b>	<b>\$ ...</b>	<b>\$ 10,500</b>	<b>\$ 10,500</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer out		\$ (133,295)	\$ (133,295)	
<b>Total other financing sources (uses)</b>	<b>\$ ...</b>	<b>\$ (133,295)</b>	<b>\$ (133,295)</b>	<b>\$ ...</b>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<b>\$ (27,500)</b>	<b>\$ (133,295)</b>	<b>\$ (122,795)</b>	<b>\$ 10,500</b>
<b>Fund balances - beginning of year</b>	<b>27,500</b>	<b>133,295</b>	<b>224,932</b>	<b>91,637</b>
<b>Fund balances - end of year</b>	<b>\$ ...</b>	<b>\$ ...</b>	<b>\$ 102,137</b>	<b>\$ 102,137</b>

"See Accompanying Notes and Accountants' Review Report."

**TOWN OF CASTLE VALLEY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Town of Castle Valley (referred to as the "Town" hereafter) is a political subdivision within the State of Utah, operating as a town under Utah law as of November 1985. The Town is governed by an elected mayor and a four-member council. These individuals have overall fiscal responsibility and accountability of the Town.

All financial activities and entities over which the Town has financial accountability are included in this report. The inclusion or exclusion of these entities was based on the criteria set forth in the Governmental Accounting Standards Board (GASB) pronouncements. The basic criteria for including an entity, a board, or an agency in this report is the existence and exercise of financial accountability by elected officials of the Town. In addition to financial accountability, consideration has been given to financial interdependency, ability to designate management, ability to significantly influence operation, and accountability for fiscal matters. At June 30, 2005, the Town had no component units.

**B. Government-Wide and Fund Financial Statements**

Generally accepted accounting principles (GAAP) require that state and local governments provide a government-wide statement of net assets and a government-wide statement of activities. These government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) are required to be presented using the economic resource measurement focus and the accrual basis of accounting, the same measurement focus and basis of accounting employed by private-sector business enterprises and not-for-profit organizations.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Major individual governmental funds are reported as separate columns in the fund financial statements.

The statement of net assets is the basic government-wide statement of position that presents all of the Town's permanent accounts (assets, liabilities, and net assets).

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, property taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major government funds:

General fund – The General Fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first then unrestricted resources, as they are needed.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. **Capital Assets**

Capital assets, which include: well and pressure tank; buildings; vehicles, equipment and machinery; roads and infrastructure; and office equipment are reported in the government-wide financial statements. The Town defines capital assets as assets with an initial individual cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Well and pressure tank; buildings; vehicles, equipment, and machinery; roads and infrastructure, and office equipment of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Well and pressure tank	40
Buildings	10 - 40
Vehicles, equipment, and machinery	5 - 10
Roads and infrastructure	40
Office equipment	5 - 7

E. **Budgetary Information**

Budgets are presented on the modified accrual basis of accounting for all governmental funds. All annual appropriations lapse at year-end. The following procedures are used in establishing the budgetary date reflected in the financial statements.

1. During May of each year, the Mayor submits to the Town Council a proposed operating budget for the next fiscal year commencing July 1<sup>st</sup>. The operating budget includes proposed expenditures and the proposed sources of revenues. A final budget for the current year ending June 30 is also included.
2. Copies of the proposed budget are made available for public inspection and review by the citizens of the Town.
3. If the Town does not exceed the certified tax rate, a public hearing is held prior to June 22 and the budget is legally adopted through passage of a resolution. If the Town exceeds the certified tax rate, the budget is adopted in August when data is available to set the rates.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Information (Continued)**

4. Once adopted, the budget can be amended by subsequent Town Council action. The Town Council can approve reductions in appropriations, but increases in appropriations, by fund, require a public hearing prior to amending the budget. In accordance with Utah State law, interim adjustments may be made by the administrative transfer of money from one appropriation to another within any given fund.
5. Minor interim adjustments in estimated revenues and appropriations during the year ended June 30, 2005, have been included in the final budget approved by the Town Council, as presented in the financial statements.
6. Expenditures may not legally exceed budgeted appropriations at the department level for the General Fund and the fund level for all other funds.

**F. Deposits and Investments**

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of six months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF).

Investments are reported at fair value. The PTIF's reported value is basically the same as the fair value of the Fund's shares.

**G. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities fund type statement of net assets.

**H. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**2. DEPOSITS AND INVESTMENTS**

The Town's deposits and investments are governed by the Utah Money Management Act (Utah Code, Title 51, Chapter 7) and rules of the State of Utah Money Management Council.

## 2. DEPOSITS AND INVESTMENTS (Continued)

The Town follows the requirements of the Utah Money Management Act (the Act) in handling its depository and temporary transactions. This law requires the depositing of Town funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

### **Deposits**

The Town maintains a cash pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as cash. Income from the investment of the pooled cash is allocated based on each fund's portion of the pool. In addition, cash is separately held by individual funds.

### *Custodial Credit Risk*

Custodial credit risk is that risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial risk. At June 30, 2005, the Town's bank balance of cash on deposit was \$27,009. All of this amount, \$27,009, was insured.

### **Investments**

The Money Management Act defines the types of securities authorized as appropriate investments for the Town and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Town to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, and Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

## 2. DEPOSITS AND INVESTMENTS (Continued)

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2005, the Town had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
State of Utah Public Treasurer's Investment Fund	\$ 154,057	\$ 154,057			
Total Investments	<u>\$ 154,057</u>	<u>\$ 154,057</u>	<u>\$ ...</u>	<u>\$ ...</u>	<u>\$ ...</u>

### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town manages this risk in part by investing in the Utah Public Treasurers Investment Fund. The Town also manages its exposure to fair value loss arising from increasing interest rates by complying with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

### *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town has not adopted a formal policy with regards to credit risk on investments but the Town informally follows the policy for reducing its exposure to credit risk by complying with the State's Money Management Act as previously discussed.

## 2. DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2005, the Town had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
State of Utah Public Treasurer's Investment Fund	\$ 154,057				\$ 154,057
Total	\$ 154,057	\$ ...	\$ ...	\$ ...	\$ 154,057

### *Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town's informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

### *Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a formal policy for custodial credit risk. As of June 30, 2005, the Town had \$154,057 invested in the Public Treasurer's Investment Fund and was held by them.

## 3. RESTRICTED FUND BALANCES

Included in the General and Capital Projects cash and investment accounts at June 30, 2005 are the following, which are restricted as to their use:

Class "C" Road Funds	\$ 14,069
Capital projects	47,857
Capital improvements/reserves	18,549
	<u>\$ 80,475</u>



4. **CAPITAL ASSETS**

A summary of changes in the general fixed assets follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Work in progress	\$ 84,170	\$ ...	\$ (84,170)	\$ ...
Capital assets being depreciated:				
Well and pressure tank	\$ 10,589			\$ 10,589
Buildings	2,986	\$ 258,438		261,424
Vehicles, equip, & machinery	36,645			36,645
Office equipment		5,193		5,193
Roads and infrastructure	182,173	17,713		199,886
Total capital assets being depreciated:	\$ 232,393	\$ 281,344	\$ ...	\$ 513,737
Less accumulated depreciation for:				
Well and pressure tank	\$ 1,324	\$ 265		\$ 1,589
Buildings	1,854	9,455		11,309
Vehicles, equip, & machinery	13,461	3,665		17,126
Office equipment		1,039		1,039
Roads and infrastructure	40,806	2,516		43,322
Total accumulated depreciation	\$ 57,445	\$ 16,940	\$ ...	\$ 74,385
Total capital assets being depreciated, net	\$ 174,948	\$ 264,404	\$ ...	\$ 439,352

4. **CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
General government	\$ 14,423
Highways and public improvements	<u>2,516</u>
Total depreciation expense - governmental activities	<u>\$ 16,939</u>

5. **LONG -TERM DEBT**

During 2004, the Town of Castle Valley entered into a promissory note for the construction of a Town Hall in the amount of \$150,000 over a period of 30 years at 2.5% interest. Payments begin on July 1, 2005 and continue each July 1 until repayment is made. The repayment schedule is as follows:

DATE PAYMENT DUE	PRINCIPAL DUE	INTEREST CHARGES	TOTAL PRINCIPAL AND INTEREST
2005	\$ 4,000	\$ 3,750	\$ 7,750
2006	4,000	3,650	7,650
2007	4,000	3,550	7,550
2008	4,000	3,450	7,450
2009	4,000	3,350	7,350
2010-2034	<u>130,000</u>	<u>45,375</u>	<u>175,375</u>
Total	<u>\$ 150,000</u>	<u>\$ 63,125</u>	<u>\$ 213,125</u>

The long-term debt activity for the year ended June 30, 2005, was as follows:

	Balance 06-30-04	Additions	Adjustments & Retirements	Balance 06-30-05
CIB Building loan	<u>\$ 150,000</u>	<u>          </u>	<u>          </u>	<u>\$ 150,000</u>
	<u>\$ 150,000</u>	<u>\$ ...</u>	<u>\$ ...</u>	<u>\$ 150,000</u>

6. **RESTRICTED CASH**

Restricted cash shown in the General and Capital Projects Funds on the balance sheet represent amounts held for the future use in these areas.

7. **RETIREMENT**

The Town does not have a retirement program.

8. **BUDGET COMPLIANCE**

For the year ending June 30, 2005, Town of Castle Valley had no unfavorable budget variances.

9. **RELATED PARTY**

The Town has no related party transactions.

10. **PROPERTY TAXES**

The property tax revenue of the Town is collected and distributed by the Grand County Treasurer as an agent of the Town. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer. Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at an annual rate equal to the federal discount rate plus 6%; the interest period is from January 1 until date paid.

As of June 30, 2005, property taxes receivable consist of 1) delinquent taxes assessed but uncollected for calendar year 2004 and earlier and 2) taxes assessed as of January 1, 2005, but are not due and payable until November 30, 2005. It is expected that all delinquencies plus accrued interest and penalties will be collected within a five-year period, during which time, the county treasurer may force the sale of property to collect the delinquent portion. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

**11. PROPERTY TAXES (Continued)**

Beginning January 1, 1992, there was levied in lieu of the ad valorem tax, an annual uniform fee based on the value of motor vehicles. The uniform fee was 1.5% of the fair market statewide value of the property, as established by the State Tax Commission. On January 1, 1999, legislation became effective which made motor vehicles weighing 12,000 pounds or less subject to an "age-based" fee that is due each time the vehicle is registered. The revenues collected in each county from the uniform fee is distributed by the county to each taxing entity in which the property is located in the same proportion in which revenue collected from ad valorem real property tax is distributed. The District recognizes age-based fee as revenue when the County collects it.

**12. PROPERTY TAX CALENDAR**

The Town adopts, by June 22, the proposed tax rates as part of its budget for the current year, which begins July 1. If the proposed rates exceed a certified tax rate, a special public hearing must be held before the final rate is adopted. The final tax rate is assessed by the county assessor on property in the county as of January 1. The taxes are payable to the county treasurer by the end of November and are remitted to the Town by the county treasurer as collected.

**13. RISK MANAGEMENT**

The Town of Castle Valley is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town is insured through commercial companies for its general liability coverage. At June 30, 2005, the Town had no claims or judgments filed against it related to the risks mentioned above.

**SMUIN, RICH & MARSING**

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.  
R. KIRT RICH, C.P.A.  
GREG MARSING, C.P.A.  
DOUGLAS RASMUSSEN, C.P.A.

**MEMBERS**

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

To the Mayor and Town Council  
Town of Castle Valley  
H.C. 64, Box 2705  
Castle Valley, Utah 84532

**RE: Auditor's Report on State Compliance  
for State Grants**

We have reviewed the financial statements of the Town of Castle Valley, for the year ended June 30, 2005, and have issued our report thereon dated December 30, 2005. A review consists principally of inquiries of Town personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion. However, in accordance with State laws, we have audited the Town of Castle Valley's compliance with the requirements governing types of services allowed or unallowed; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to the Community Impact Board's Loan for the Town's hall as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005.

The management of the Town of Castle Valley is responsible for its compliance with the compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit. An audit includes examining, on a test basis, evidence about the Towns' compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion. The results of our audit procedures disclosed no immaterial instances of noncompliance with the requirements referred to above.

In our opinion, the Town of Castle Valley complied, in all material respects, with the requirements governing types of services allowed and unallowed; matching, level of effort, or earmarking; reporting and special tests and provisions that are applicable to the Community Impact Board Loan for the year ended June 30, 2005.

SMUIN, RICH & MARSING



Price, Utah

December 30, 2005